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IN THE

Supreme Court of the United States

OCTOBER TERM, 1981

NORTH AMERICAN PHILIPS CONSUMER ELECTRONICS CORP., a Tennessee corporation, and PARK TELEVISION d/b/a PARK MAGNAVOX HOME ENTERTAINMENT CENTER, an Illinois partnership,
Petitioners,

v.

ATARI, INC., a Delaware corporation, and MIDWAY MFG. CO., an Illinois corporation,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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I. THE COURT BELOW DID NOT FOLLOW ANY SETTLED TEST FOR COPYRIGHT INFRINGEMENT

Respondents urge that the court below applied "the settled test" for copyright infringement. There is no settled test. The Seventh Circuit did not "carefully set out the appropriate test of copyright infringement" (Respondents' Brief in Opposition, p. 4, hereinafter "Opp. ____"). Petitioners' complaint is not that the Seventh Circuit found the facts incorrectly, but that the

Seventh Circuit's test of copyright infringement is improper and inconsistent with the tests applied by other Circuits. Although the Seventh Circuit recognized a two-part test of substantial similarity, it did away with the analytical steps which the Second and Third Circuit take or which the Ninth Circuit takes. The resulting Seventh Circuit test fails to distinguish "idea" from "manner of expression" when it focuses "on the second part of that [two-part] test and the response of the 'ordinary observer' " (App. A10).

The Seventh Circuit has created a new "total concept and feel" criterion for infringement. There is no substance in respondents' attempt to dispute that. In fact, one of respondents' attorneys has called this test the "nose" test which "[t]he court smells . . . somehow or another." (App. T 5). Regardless of the Seventh Circuit's borrowing of the "concept and feel" language from the greeting card case, *Roth Greeting Cards* v. *United Card Co.*, 427 F. 2d 1106, 1110 (9th Cir. 1970), the test itself has no merit, especially in view of the specific provision of the 1976 Act which precludes copyright protection of a concept, 17 U.S.C. § 102(b). Respondents suggest that the *Roth* "total concept and feel" standard was "reaffirmed" in *Eden Toys, Inc.* v. *Marshall Field & Co.*, CCH 1982 Copyright Law Decisions, ¶ 25,383 (2d Cir. 1982), but the appellate judges who decided *Roth* and *Eden Toys* did not find it definitive; both cases were split decisions.

The need for a definitive procedure for determining copyright infringement is apparent in the expressions of views of the appellate judges in *Roth* and *Eden Toys*, and indeed, in the present case. The Seventh Circuit judges found certain features in the video games in suit critical, while the District Judge relied on others. They were looking at the identical subject matter. The fact that the District Judge heard the testimony as the exhibits were placed in evidence while the appellate panel only had a cold record can be placed to one side. There certainly

ought to be guidelines by which an initial trier of fact may conclude that his decision is firmly premised. Members of the video game industry need a set of guidelines that will enable them to rightly use ideas and concepts which cannot be monopolized by copyright. 17 U.S.C. § 102(b).

II. A RESOLUTION OF THE ISSUES RAISED IN THE PETITION WILL APPLY TO MANY COPYRIGHT ACTIONS, NOT JUST TO THE FACTS OF THE PENDING CASE

Respondents' admit that this is not a fact-bound case in agreeing with petitioners that

> "this is the first Court of Appeals decision involving the *scope* of a video game copyright" (Opp. 1; also at Opp. 9, emphasis added)

They also argue that

> "Prudence dictates that this Court allow for the further development and refinement of *the application of copyright principles to video games* before reviewing any of these cases."
> (Opp. 10, emphasis added).

Respondents' admissions that the permissible *scope* of a video game copyright is presently at issue, and that the manner of applying copyright principles to video games is in a developmental state, take this case way beyond a simple matter of importance only to the parties here.

In urging that the time is not ripe to set guidelines for the lower courts, respondents do not dispute that there is a plethora of recent video game copyright cases. Whether any of those cases will ever come to this Court is problematical, and the lower courts will be left without guidelines until another litigant of North American's stature comes along. For respondents to

suggest that somehow the manner of applying the applicable copyright principles will be sorted out later is simply to suggest waiting for these principles to become further confused. In a market overwhelmingly dominated by respondents (Apps. L, M), their PAC-MAN and other video game copyrights will continue to be aggressively asserted according to the professed intentions of Midway's president (App. U 3):

> "'Attack on all fronts is the best positioning,' Midway's CEO explained. 'We walked slowly at first, beginning with *Galaxians*. We served notices. We waited until *Pac-Man* to take action on all fronts.
>
> "'As we continue to protect our rights, others will grow to respect them.'"

It is said that a review by this Court now would do no more than send this case back to the lower courts for a fuller determination of the issues (Opp. 9).[1] Yet the video games in suit will not change in any respect, nor will the views of the Seventh Circuit. The unsupportable factual determinations by the Court of Appeals concerning "blatantly similar features" and "significant visual similarities" have been pointed out in the Petition (Pet. 13-16). The District Judge, however much he may disagree, will believe himself bound. This Court's refreshing decision in *Inwood Laboratories, Inc.* v. *Ives Laboratories, Inc.*, 50 U.S.L.W. 4592 (June 1, 1982), concerning the deference which ought to be given to a district judge's findings cannot be expected to have much effect upon a later decision by the District Judge in the present case, or upon the Court of Appeals.

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[1] The Seventh Circuit has recognized the possibility of placing the issues of this matter before this Court at the *present* time, stating in its Order of March 2, 1982 (App. C) that the injunction which it granted (and which was entered by the District Court as of March 16, 1982) was for the period "pending completion of the proceedings in this Court or before the Supreme Court of the United States."

Instead of permitting, as respondents suggest, a more ample basis for deciding the issues raised by the Petition, a denial of review would promote the finality of the principles of copyright law stated in the Court of Appeals' decision. Respondents take no issue with petitioners' point that preliminary relief, as a practical matter, is highly likely to be the equivalent of final relief (Pet. 24), and that home video games have a life cycle of one to two years. If review is denied, petitioners' opportunity to sell their game will be effectively lost. Success on the merits later will provide petitioners only with the right to sell a dead product.

CONCLUSION

The Circuits are in conflict, and the matter at hand is of substantial national importance. The Petition should be granted.

Respectfully submitted,

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APPENDIX T

CHICAGO DAILY LAW BULLETIN
June 4, 1982

PAC-MAN SUITS CHASE COPYRIGHT GOBLINS

By William Fulton, Los Angeles (ACCN)

A team of lawyers swept into federal court here last January to execute a series of lightning strikes on suspected commercial pirates.

Pac-Man had made it to the courts.

In an *ex parte* proceeding, lawyers representing the video-game giant Midway Manufacturing Co. asked a federal judge to issue sealed temporary restraining orders against almost 30 defendants charged with infringing Midway trademarks and copyrights. The lawyers, from the Los Angeles firm of Loeb & Loeb, told the judge the defendants had made and used games similar to Midway's Rally-X, Galaxian, and the wildly-successful Pac-Man and had also devised "speed-up" kits that make Midway's games more difficult to play.

U.S. District Judge Terry J. Hatter granted the sealed TROs, and federal marshals, accompanied by Loeb & Loeb lawyers, fanned out across Southern California to impound the alleged "knock-off" games and "speed-up" kits. They seized machines at more than 20 locations—not only from manufacturers and distributors, and arcade operators, but also from retail establishments and restaurants. They took one machine each from a 7-11 store in Moinrovia, a Circle K restaurant in San Bernardino, a Pizza Machine restaurant in Gardena, and even Behihana's of Tokyo in Encino.

A private investigator had previously scouted out most of the locations. Most of the defendants did not know Midway was suing them until the U.S. marshals arrived.

Over the next couple of weeks, most of the defendants signed forms provided by Loeb & Loeb, stipulating to in-

junctions against further infringement of Midway's copyright games, and got their machines back.

A few of the alleged pirates, however, didn't buckle under to the preliminary injunctions. Instead, they pooled their money, hired a Washington, D.C., partner and copyright lawyer, demanded a jury trial, and filed a wide range of counterclaims against Midway, alleging that the large corporation obtained the Pac-Man copyright fraudulently—not to protect the creators of the games, but to corner the market.

This group of defendants claims to be the stiffest resistance Midway has run into so far in its forceful attempt to retain dominance of the video-game field. Overall, though, the Los Angeles litigation has been a standard operation for Chicago-based Midway, a subsidiary of Bally Manufacturing corp. and the undisputed king of the coin-operated video-game market. Since the video-game craze hit the United States a few years ago, Midway has grossed perhaps hundreds of millions of dollars through deft acquisition of the rights to video games, including the two most successful games marketed in the nation so far—Pac-Man and Galaxian.

The spectacular success of Pac-Man in particular has given birth to a dozen or more similar "gobble" games—Puck-Man, New-puck, Buccaneer, Hungry Sailor, and others. When Pac-Man's popularity flagged because players figured it out, some distributors began selling "speed-up" and "enhancement" kits, which make the games go faster or appear brighter merely by replacing a few information-coded microchips.

These similar games and speed-up kits have in turn led Midway's lawyers, headed by Donald Welsh of Fitch, Even, Tabin, Flannery & Welsh in Chicago and David Gerber of Loeb & Loeb in Los Angeles, to pursue alleged infringers with zeal. The sealed orders, *ex parte* hearings, private investigators' scouting trips, and raids by U.S. marshalls have been repeated in other cities around the country.

"We're not going to sit back and see this vast, successful, growing, financially successful market destroyed by copies," says Stanley J. Jarocki, Midway's marketing director. So far, he proudly points out, "we have been successful in every one of our actions. There has not been a single setback." And, indeed, in the past year several federal judges have ruled video-game copyrights valid as "audio-visual works" and have favored the copyright-holder in most "knock-off" cases.

But the small band of defendants in Los Angeles apparently means to challenge Midway in a serious way. They say Midway's tactics have nothing to do with the law but are merely meant to scare the arcade owners away from games that Midway doesn't produce. Under a legal defense fund called Save and Help Independent Enterprise by Legal Defense, or SHIELD, they have responded to Midway's lawsuit by filing a number of counter-charges, including fraudulent procurement of the Pac-Man copyright and vertical and horizontal antitrust violations.

Almost as soon as Pac-Man became widely successful in the states, games with similar characteristics began to appear —Packman, Puck Man, New Puc, Maze Man, Glutton, Buccaneer. Arcade owners bought them simply because they were cheaper—instead of buying a $3,000 game-and-cabinet unit from Midway, the distributor could buy the electronic board in Japan, where the games were developed, for a few hundred dolllrs. Then he could drop it in his own console or even install the board in a console the arcade already owned.

Jarocki, Midway's marketing director, says his company feared the video-game market would collapse from saturation if copies proliferated—duplicating a depression in the market in Europe and Japan.

Computer experts can easily make exact copies of a video game simply by reading its computer program. When the first hit video game, Space Invaders, found a large market in Japan,

Jarocki said, the country was immediately flooded with copies. As a result, he said, the games fluctuated in quality, discouraging many devoted players and essentially killing the market.

So Midway decided to take a hard line. First, the company got the U.S. International Trade Commission to prohibit the importation of games similar to Galaxian and Pac-Man. Then it went after alleged copiers in court.

After the initial Pac-Man craze in early 1981, however, Midway had to contend with a different kind of alleged infringement: the "speed-up" kit. Using a few ROM (random only memory) microchips, these kits changed a game's computer program to make it faster or brighter and therefore lure back customers who have figured out how to beat the game.

In a statement filed in federal court in Los Angeles, James T.A. Babington-Johnson Jr. of Video 2000, an arcade on La Cienega Boulevard, said he turned to speed-up kits when initial interest in Pac-Man died down. He compared it to jiggering with the springs and cams of a pinball machine to make it more challenging.

Midway seized three of Video 2000's 22 video games in an early February raid. SHIELD has taken up Video 2000's case as the litmus test of its defense strategy. SHIELD lawyer Stern contends that Midway has no control over what's done with its games once it sells them.

"When the owner of a copyright makes and sells a product in which he embodies the copyrighted work, customers are free to do whatever they will with whatever they have bought, whether the copyright owner likes it or not," he wrote in a court memorandum.

Miday's Jarocki, however, says the speed-up kits amount to an infringement on the Pac-Man trademark.

In court, Midway has made a half-dozen allegations against the firms it has sued, charging them with copying

Midway games, importing counterfeits, selling speed-up kits, selling games with speed-up kits as Midway games and selling kits to convert old games to new ones.

When the cases have gone to court, Midway and other copyright-holders generally have prevailed. Although almost no rulings existed in video-game/copyright cases until last year, since then federal courts have clearly established that video games are entitled to copyright protection as audio-visual works. The sticky problem is distinguishing between mere use of a copyright-holder's idea, which is not subject to protection, and illegal infringement on expression of the idea, which is copyrightable.

"It comes down to the nose test," says one Midway lawyer. "The court smells it somehow or another."

So far the courts have smelled pirates. In *Atari Inc. v. North American Phillips Consumer Electronics Corp.*—in which Atari alleged that the home video game "K.C. Munchkin" violated the home version of Pac-Man, marketed by Atari—U.S. District Judge George N. Leighton in Chicago denied a preliminary injunction, saying he found substantial differences between the two games. For example, he said, the defendants' "munchers" are "spookier," have longer legs, and are of a different color than the "goblins" of "Pac-Man." But the 7th U.S. Circuit Court of Appeals overruled Leighton, saying he couldn't see the forest for the trees.

SHIELD, however, is fighting back with countercharges that its lawyers say have not been raised in defense of alleged "knock-off" games before. On May 11, Stern asked Judge Hatter in Los Angeles to dismiss the copyright charges because, he alleged, the copyright was fradulently acquired.

He specifically accused Midway of:

• Fraudulent procurement of the Pac-Man copyright and bad-faith enforcement of that copyright. Stern contends Nam-

co, which sold the U.S. right for Pac-Man to Midway, didn't invent the game in Japan.

• Horizontal allocation of markets. Midway, Atari, and Namco allegedly split up the video game market, with Namco taking Japan, Midway taking U.S. arcades, and Atari taking U.S. home video.

• Tie-ins. Stern argues that operators should not be required to buy a Pac-Man game, cabinet and all, for $3,000, when a computer board costs only a few hundred dollars. Jarocki says Midway is merely protecting its trademark.

• Vertical foreclosure and acquisition of outlets. Stern alleges that Midway, with financial help from Bally, has been buying up the rights to most of the games and making exclusive relationships with sources of microchips and boards, as well as buying up arcades and pizza parlors.

• Harassment of arcade owners and distributors.

"Midway did not intend to protect a motion picture or videotape by the copyright registration," Stern wrote in a court pleading. "It intended to gain a monopoly over the Pac-Man game and the manufacture and sale of coin-operated video game machines on which such game was played."

APPENDIX U

PLAY METER
July 1, 1982

IN THE WINNER'S CIRCLE

by Mike Shaw

If you've been operating videos anywhere in the world this year, then you know about efforts by manufacturers to impede the flow of games and game boards that imitate too closely pieces which they have either created or licensed from origina-

Plaintiff (or Appellant)	Court	Decision
Midway	U.S. District Court in Utah	temporary restraining order and preliminary injunction against Imperial Games Inc., Taito Inc., and Tecnomatic Shamrock
Midway	U.S. District Court in Honolulu, Hawaii	permits and imposed against 43 defendants
Midway	International Trade Commission	cease and desist in processing and sale against Japanese foreign and domestic firms
Stern	U.S. Court of Appeals in New York	injunction, seizure, and impoundment upheld against Omni Video Games of New Jersey
Midway	U.S. District Court in Los Angeles	injunction against 23 manufacturers, distributors, operators, and locations
Atari	U.S. Court of Appeals in Chicago	preliminary injunction against North American Philips' Odyssey subsidiary
Nintendo of America	U.S. District Court in Los Angeles	temporary restraining order against Dirom Corporation and Pacific Amusements
Nintendo of America	U.S. District Court in Orlando, Florida	temporary restraining order against ABC Florida and American Sun Vending
Gamemaster	U.S. District Court in New Jersey	injunction for sale of the videotape, and recall infringing games already distributed against U.S. Amusements of New Jersey

tors. While restrictive city ordinances have besieged operators from outside the boundaries of the industry, within, the most publicized difficulty has been over copyright infringement.

The issue has kept manufacturers' attorneys busy and has provided them with a platform for almost unilaterally victorious litigation. In fact, according to Midway Manufacturing's copyright attorney, A. Sidney Katz, video copyright holders have now won forty different cases in forty different courts with no dissensions.

But, after all these trips to the winner's circle, what exactly have the manufacturers won? Have they stemmed the tide of counterfeit games, or are they hopelessly overwhelmed by a massive wave of imitations that can't be quelled?

Midway's President David Marofske believes that court actions have not succeeded in cutting off the supply of pirated games and printed circuit boards nor have litigated victories been in vain.

"Litigation has helped maintain the status quo," Marofske explained from his office at Midway's headquarters in Franklin Park, Illinois. "But we must continue, with strength, in the direction we are going."

Marofske blamed copiers for a ruined European industry and a softened market in Japan. In those parts of the world, he said, players have been turned off because of a saturation of different renditions of the same game.

"Effectively, the copiers have eliminated themselves. They have brought a total collapse to the European market," he said.

But because of successful litigation by Midway and other copyright holders, the American market "has not been so attractive" to copyists.

"If we aren't successful in the courts, we don't stop the flood of copies," he said. "We would then have a situation just like Europe."

Marofske's dire prediction of a video collapse without proper copyright protection for license holders serves as a basis for Midway's broad attack on all levels of the industry. Midway has filed court actions against importers, manufacturers, assemblers, distributors, operators, and even locations who are found with infringing pieces.

"Attack on all fronts is the best positioning," Midways' CEO explained. "We walked slowly at first, beginning with *Galaxians*. We served notices. We waited until *Pac-Man* to take action on all fronts.

"As we continue to protect our rights, others will grow to respect them. Our industry will remain solid; all segments in it will remain strong," he said. "Our victories in the courts will represent a win for the whole industry."

And so, while admitting that the battle against infringers is far from over, Marofske solidified his stance that court action is the best way to accomplish the ultimate task of making the world safe for videocr[illegible].

Speed-up kits

Copies are defeated by their inferiority, according to Marofske, and the same principal applies to enhancements.

Speed-up kits, that alter the play of the game by making it more difficult for players who have mastered the original, have been hailed by some operators as game savers, responsible for added play on games that have become nearly obsolete because players find no more challenge in them.

Midway's boss did not deny the viability of enhancements.

"Factories should listen to the marketplace," he offered. "Yes, there is some room for speed-up kits and enhancements, but only by the creator of the game.

"It is hard to judge when an enhancement kit will work. It can destroy the whole feeling of a game. It is difficult to change the game without taking something away from it."

Midway produced kits for *Pac-Man*, but they were not accepted in great numbers by operators, contended Marofske. Prior to that, when the clamor arose for enhancements for *Galaxians*, Midway had refused and the move turned out best for the continued interest in the game, Marofske said.

"*Galaxians* held its ground and its value," he said.

Attorneys speak

If Midway's courtroom actions have established its stance as the industry's most aggressive, then its law firm of Fitch, Even, Tabin, Flannery & Welsh has established itself as the most effective arguer of video game copyright litigation. A. Sidney Katz, of the Chicago-based firm, believes the company's position on the copyrightability of videos has proven solid. Objections to the copyrightability of videos have been effectively negated by the courts' renderings.

In the lone action where a major manufacturer has alleged infringement and lost—Atari's *Asteroids* vs. Amusement World's (Maryland) *Meteors*—the question of copyrightability was not raised. Rather, the decision was rendered based on the opinion that *Meteors* was not a copy of *Asteroids*.

Elaine Leitner, Cinematronics's copyright lawyer, agreed with Katz.

"In the three cases I have handled lately, no one has even raised the issue of copyrightability. That issue is no longer a question; it is accepted."

Although "fixation" has been questioned as it applies to video games, Katz said that the criteria in the copyright law that requires an audio/visual work to be fixed is met by video games. (Audio/visual works, like movies and computer programs, are always the same, from beginning to end. The unfolding of a video game alters with each quarter.)

"The Second Circuit Court of Appeals found that the requirements were met in Stern vs. Kaufman," said Katz. (See *Play Meter*, March 15, p. 11.)

"Besides, the material that is copied is the material that stays the same."

The position that the unintelligibility of object code renders it uncopyrightable is also denied by Katz.

"Simply stated, that position is wrong," Katz said. "The new act—the new copyright statute was enacted in 1976 expressly to cover the area of computer programs and related expressions—does not make that distinction. The position has been argued and rejected in federal court in California."

The fact that object codes cannot be read is wrong, Katz said. A person must simply have the training to read the series of 1's and 0's that object code is expressed in.

"There are programmers at Midway who can read object codes."

The copyrightability of video games is universally accepted, Katz offered, and there is no reason the courts should view a copyright holder with any doubt. Registration is entitlement to a "presumption of validity," he said. But he added that an amendment to the copyright statute that specifically names video games as included under the law, as it currently does for movies and phonographs, would be helpful.

Midway's president Marofske and his attorney Katz are firmly entrenched for the battle against the video pirates. They know that winning substantiates their positions. Whether or not a successful challenge can be mounted against them is yet to be seen. But for now, they are in the winner's circle surrounded by their victories, bolstered by these successes.